



France Telecom

North America

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US Investment Manager

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PRESENTATION DOCUMENT

COMPANY INFORMATION

Name: Genesis Ventures

Address: 1600 K Street, Suite 1000
Sacramento, CA 95814
USA

Phone: (916) 850 5251

Fax:

Web: --

Management: MOORJANI, Deepak
SPINDLER, Michael

Market: venture capital

Activity: seed stage oriented venture capital partnership

OPERATION DOCUMENT

NATURE OF THE INVESTMENT:

Fund investment

ISSUE AT HAND:

Participation in the fund

TOTAL INVESTMENT BEING ASKED BY COMPANY:

\$50-\$60 million

PROPOSED INNOVACOM PARTICIPATION:

\$3 million - \$5 million

POSITIONING OF INNOVACOM:

Special Limited Partner, with US Investment Manager as Venture Partner

STRUCTURE OF THE INVESTMENT (\$):

Innovacom invests at the first closing of the fund.

GP receives reduced carry on Innovacom's investment
(10% instead of 20%)

Innovacom receives part of the GP's carry due to close involvement of
Innovacom's US Investment Manager with Genesis Ventures.
(0.5% of the fund returns)

If Innovacom's current or historic limited partners invest \$10 in Genesis
Ventures, Innovacom's part of the GP carry will double.
(1% of the fund returns instead of 0.5%)

Innovacom receives co-investment rights in deals sourced by Genesis

Innovacom can co-locate in the offices of Genesis Ventures at no charge.

EVALUATION DOCUMENT

1. Company Background

Genesis Ventures is being created as a venture capital fund seeking to generate long-term capital appreciation through equity investments in seed-stage Internet-related software and communications companies.

The opportunity for seed-stage investors results from the changing investment environment. Despite increasingly vibrant technology markets, there is less and less professional money available for seed-stage companies. Traditional venture capital firms, with increasing amounts of money under management, can no longer afford to make as many seed investments; increased fund sizes have forced them to shift their investment focus towards later-stage investments that require more capital and less time.

Genesis seeks to fill this funding gap in order to develop high-growth technology-oriented companies. With its focus and experience, Genesis will actively assist entrepreneurs who have the ideas and experience to build industry-leading companies.

Innovacom's US team has known Mr. Moorjani, one of the Genesis partners since 1996, and has worked with him on a number of deals, culminating in a joint investment in Epicentric in 1998. Innovacom's US team met Mr. Spindler at the beginning of the year and has had several occasions to discuss investment approaches and the industry with him, with good results. We believe there is an excellent fit there as far as the working relationship.

2. The Team

General Partner

Deepak Moorjani, partner, was mostly recently an executive with Société Générale in New York (now known as SG Cowen). In this capacity, Mr. Moorjani served as merchant and investment banker and was instrumental in developing his firm's technology practice in the United States. In the technology area, his past and current investments include Entrust (Nasdaq: ENTU), LikeMinds (sold to Andromedia), Avaj and Epicentric. His advisory clients have included Motorola, ST Microelectronics, Electronic Arts and Dassault. Through these activities, Mr. Moorjani has developed an extensive network of relationships with leading venture capital firms, operating companies, investment banks and commercial banks in the technology sector.

Previously, Mr. Moorjani was with The Lodestar Group, an investment and merchant banking boutique. Lodestar was founded in 1988 by senior executives of Morgan Stanley and Merrill Lynch. During this time, Mr. Moorjani worked extensively with the Media & Entertainment Group and gained experience in the cable television, telecommunications and film industries. Mr. Moorjani also played a key role in the divestiture of The Lodestar Group's merchant banking portfolio. He is a graduate of Duke University with an AB in economics and philosophy.

Michael Spindler, partner, most recently was President, Chief Executive Officer and a Director of Apple Computer (Nasdaq: AAPL), the pioneer of the personal computer industry. In this position, Mr. Spindler held responsibility for all aspects of Apple's \$10 billion business worldwide. Joining Apple in 1980, he assumed positions of increasing responsibility including General Manager Europe, President of Apple International, President and COO in 1990, and President and CEO in 1993. He joined Apple's Board of Directors in 1991. Prior to Apple, Mr. Spindler held various engineering, sales and marketing positions at Intel Corp, Digital Equipment Corp, Schlumberger AG and Siemens AG.

Currently, Mr. Spindler is an active seed investor in a number of technology companies including Mayan Networks Inc, WeGain.com Inc, AlcheMe Inc and Selena Pharmaceuticals Inc. He is a Director of privately-held NetNote International (Ireland), Vidamed Inc (Nasdaq: VIDA) and Libraries for the Future, a non-profit national advocacy organization to promote the technological advancement of public libraries. Mr. Spindler has served as a Director of Bertelsmann AG, as a member of the International Advisory Board of Daimler-Chrysler AG and as a member of the Board of Trustees of the American Film Institute in Los Angeles. Other notable achievements include executive membership in Computer Systems Policy Project (an affiliation of CEOs of leading US computer systems companies) and lead member of a US CEO delegation to the 1995 G-7 Global Information Policy Conference in Brusseus. He has also delivered various keynote addresses including the information technology keynote at the 1995 World Economic

Forum in Davos. Mr. Spindler is a graduate of RFH Cologne in Germany with a B.S. in Electrical Engineering.

Advisory Board

Genesis Ventures has elected to form an Advisory Board which is expected to contribute valuable insight and assistance in sourcing start-ups, analyzing industry trends, building management teams, and augmenting Genesis' network of relationships. The Advisory Board will meet on an annual basis and is intended to function in a consultative capacity. Individual Advisory Board members will provide the General Partner with regular guidance on developing trends and matters of strategic interest. Advisory Board members are also encouraged to introduce attractive investment opportunities to the Partnership and will communicate regularly with the General Partner. Advisory Board members will not have any Partnership governance duties or responsibilities, but it is anticipated that they assume board of director positions with certain portfolio companies, where appropriate.

Dr. John Seely Brown is the Chief Scientist of Xerox Corporation and the Director of its Palo Alto Research Center (PARC). At Xerox, he has been involved in expanding the role of corporate research to include such topics as organizational learning, ethnographies of the workplace, complex adaptive systems and techniques for unfreezing the corporate mind. His personal interests include digital culture, ubiquitous computing, user-centered design, organizational and individual learning. A major focus of his research has been in human learning and in the management of radical innovation. Dr. Brown is a Fellow of the American Association for Artificial Intelligence, a member of the National Academy of Education and co-founder of the Institute for Research on Learning, a non-profit institute addressing the problems of lifelong-learning. He has published over 60 papers in scientific journals and was awarded the Harvard Business Review's 1991 McKinsey Award for his article, "Research that Reinvents the Corporation." He is a member of the Board of Directors of General Instrument, Corning and Varian Associates. Dr. Brown holds a B.S. in Mathematics and Physics from Brown University and an M.S. in Mathematics and a Ph.D. in Computer and Communications Sciences from the University of Michigan.

Professor Edward Feigenbaum is currently the Kumagai Professor of Computer Science and Co-Scientific Director of the Knowledge Systems Laboratory at Stanford University. Previously, Professor Feigenbaum served as Chairman of the Computer Science Department and Director of the Computer Center at Stanford University. Past appointments include President of the American Association for Artificial Intelligence, the National Science Foundation Computer Science Advisory Board, the National Research Council's Computer Science and Technology Board, and the ACM Turing Award. He has been elected a member of the National Academy of Engineering, a Fellow of the American Association for Artificial Intelligence, a member of the American Academy of Arts and Sciences, and a Fellow of the American Institute of Medical and Biological Engineering. Professor Feigenbaum is also a co-founder of IntelliCorp,

Teknowledge and Design Power Inc., three companies that specialize in applied artificial intelligence, and he served as a member of the Board of Directors of IntelliCorp and Design Power Inc. He also served as a Director of Sperry Corporation (Unisys) and as Chief Scientist of the United States Air Force from 1994 to 1997. He is currently a member of the Advisory Council of the Kansai Silicon Valley Venture Forum. Dr. Feigenbaum holds a Ph.D. from Carnegie Mellon University.

Mr. Leo Hindery is currently the President and Director of Tele-Communications, Inc. (TCI), the world's largest multiple cable system operator with additional interests in programming, telephony and data service businesses. Prior to joining TCI, Mr. Hindery was Managing General Partner and Chief Executive Officer of InterMedia Partners and its related entities. He founded InterMedia in 1988, and it is currently the nation's ninth largest multiple system operator. Previously, he was Chief Officer for Planning and Finance of The Chronicle Publishing Company of San Francisco, a major newspaper, television broadcast and cable company. He was also Managing Director and Chief Financial Officer of Becker Paribas, a New York-based investment banking firm. He is a Director of Tele-Communications, Inc.; @Home Network; Cablevision, Inc.; Knowledge Enterprises, Inc.; Lenfest Group; TCI Music, Inc.; Tele-Communications International, Inc.; and USA Networks, Inc. He is also Chairman and Director of the National Cable Television Association (NCTA); Chairman and Director of the Executive Committee of C-SPAN; Vice Chairman and Director of the Executive Committee of Cable in the Classroom; and an honorary chair of Cable Positive, the cable industry's AIDS awareness organization. He is also a member of the Stanford Business School Advisory Council. Mr. Hindery graduated with honors from Stanford University's Graduate School of Business and with honors from Seattle University.

Mr. Brian O'Higgins is Founder, Executive Vice President, Chief Technology Officer and a Director of Entrust (Nasdaq: ENTU). He formed the Company in 1993 as Nortel Secure Networks, and Entrust has evolved into the leading provider of public-key infrastructure products. The Company was recognized by The Red Herring as one of the top 50 private technology companies of 1997 and has won numerous awards from publications including Network Computing, Network Magazine and Network World. Mr. O'Higgins has been involved in secure communications since 1985 when he initiated development of a prototype secure ISDN telephone system. He also led development of the Packet Data Security Overlay (PDSO) product for secure X.25 devices which was introduced in 1991. It was one of the first products to incorporate a fully automatic public-key infrastructure. Prior to Nortel, he was with Bell-Northern Research where he was involved in a variety of technology development programs, including technology for new telephone products, in-building wireless communications systems, and high-performance RISC computing architectures for call processing centers. Mr. O'Higgins received a bachelor's degree in electrical engineering from Carleton University in Ottawa, Canada.



Dr. Doug Solomon is currently Vice President of Advanced Development at Interval Research, a laboratory that explores new market opportunities at the intersection of technology and popular culture. Founded in 1992 by Paul Allen, Interval is pursuing innovations in such fields as signal computation, tangible interfaces, human studies, reconfigurable computing, demographic / lifestyle studies, new media, home media tools, portable / wearable devices, digital home entertainment systems, electro-optic and mechatronic design, social / domestic communication, and new graphic architecture. The laboratory also collaborates with other research groups and university laboratories including the Royal College of Art, the MIT Media Lab, New York University, the Santa Fe Institute, and Stanford University. In his role, Dr. Solomon is responsible for the commercialization of research results at Interval. Previously, he was Senior Vice-President, Strategic Planning and Corporate Development at Apple Computer where he was responsible for mergers and acquisitions, investments, strategic planning, major alliances, and technology licensing. Dr. Solomon holds a Ph.D. in Communication Research from Stanford University.

3. Investment Strategy

Genesis represents a return to classical venture capital with its people-oriented, start-up focus. The guiding investment philosophy of the fund is to create new companies that capitalize on market needs and demands in the Internet-related software and communications industries. The firm seeks to forge long-term mutually beneficial working relationships with management teams and to provide a high level of on-going support in the form of time, experience and relationships in addition to capital contributions.

Genesis believes that there are significant opportunities for venture capital firms that concentrate activities on seed-stage companies. These opportunities are due to the increased focus on later-stage investments by the venture community and to the increased viability of start-ups in this age of rapid technological development. Through management, technology and strategic consulting, Genesis strives to provide entrepreneurs with a substantial level of support in the drive to build successful companies.

It is anticipated that Genesis Ventures will purchase significant minority or, in limited cases, majority positions in portfolio companies with valuations less than \$5 million. Genesis will, on average, consummate two deals per year per partner, below the industry average. This model ensures that Genesis will have the time to respond to the needs of portfolio companies and to stay current on the evolving competitive and partner landscape.

Genesis Ventures expects to be the entrepreneur's preferred start-up partner and serve as the lead investor. Seed investments will typically range from \$250,000 to \$1,000,000 for initial equity positions of at least 20% of the Portfolio Company's equity. With participation in future rounds of financing, Genesis is likely to invest a total of \$3-\$4 million in each Portfolio Company, staged over time. Genesis is prepared to participate aggressively in follow-on rounds of equity financing and will assist management in identifying co-investors for these rounds. Genesis will aim for liquidity within five to seven years, through a public offering, sale, or merger.

In a sense, the real competition for Genesis is angel investors, but Genesis has the competitive advantage of "active" involvement with management and the ability to stay with companies through multiple financing rounds.

Within the information technology sector, Genesis will invest in Internet-related software and communications companies. The recent evolution of the Internet and advanced networks provide an attractive medium for communications and commerce due to their global reach, accessibility, reliance on open standards, and real-time nature. The widespread adoption of the Internet has revolutionized the manner in which organizations communicate and conduct business. The Internet is rapidly becoming a critical medium



for collecting and exchanging information and conducting commerce, presenting huge opportunities in the software and communications arenas.

As a partner with portfolio companies, Genesis will collaborate on strategic, operating, and recruiting issues and provide a network of pertinent industry contacts, critical resources for portfolio companies. Genesis will also provide introductions to banks, leasing companies, and, when appropriate, investment banks for additional financing needs.

4. Positioning

Despite increasing market opportunities for start-up companies, many traditional venture firms are decreasing their focus on seed-stage companies. This shift in investment strategy is a direct result of the increasing amounts of institutional venture capital available to the venture capital industry. According to Venture Economics, venture capital management firms enjoyed a record fund-raising year in 1997 with \$10 billion in capital commitments to independent venture capital firms. This figure represents a 33% increase from the \$7.5 billion in 1996, the previous record. With more money available, venture capital firms have raised larger funds and are forced to pursue later-stage investing. Later-stage investing allows firms to utilize the larger amounts of capital available but illustrates one of the great paradoxes of venture capital investing: as more money becomes available for venture capital investing, less money becomes available for seed-stage companies.

Many venture funds have taken advantage of the favorable market environment to raise larger and larger funds; however, the greater amounts of money have forced these firms to pursue capital-intensive later-stage investing. Venture capital, a specialized type of money management, is a business that scales very well; simply, there are economic incentives to raise larger funds. With larger funds, managers have greater amounts of guaranteed income given the fixed nature of the management fee. Venture managers also lower their investment risk by investing in later-stage companies when much of the risk (management, market and technology) has been eliminated, and an exit is more immediate. As such, seed-stage investments are increasingly ignored by traditional venture capital firms and account for only 2%, or \$250 million, of total annual investments. With this funding gap, there is an opportunity for a new class of professional seed-stage venture funds.

5. Financials

Genesis is raising about \$50 million. It is structured as a typical US venture fund with management fees of 2.5% with a 20% carry.

Innovacom will benefit from a special relationship with Genesis. As part of the investment, Innovacom will receive co-investment rights on deals sourced by Genesis.

In addition, the GP's carry on Innovacom's investment will only be 10%.

Genesis is looking for a very close role with the US Innovacom presence. The goal is for the two teams to work together on deals, with Innovacom's US investment manager being a venture partner. As a result, Innovacom would receive a carry of 0.5% across the board.

Due to the strong European component of the Genesis team, the fund will be raising money in Europe as well as the US. As such, it may be of interest to some of Innovacom's limited partners. Should present or past Innovacom LPs invest an aggregate of \$10 million in Genesis Ventures, Innovacom's carry would be 1%.

Innovacom would have the option of co-locating in the Genesis Ventures offices, which would then be co-branded as Innovacom offices as well. There would be no rent charges associated with that co-location, and telecommunication charges for both Internet and landline telephony will be waived as well.

6. Analysis

	Pros	Cons
Team	Bright, energetic, and very hard working. Both partners are extremely well networked across different layers of the IT industry. Great working relationship with Innovacom's US presence.	
Technology	Deep understanding of information technology in general. Spindler brings an additional strong developmental expertise.	
Market	Opportunity for real impact in seed funding space. Primary competition will be angel investors. Other seed stage investors lack the prestige of having a person with Spindler's profile.	Other seed stage venture funds have appeared lately or are forming.
Financial	Attractive terms for Innovacom due to a privileged relationship that would be difficult to obtain elsewhere.	

7. Conclusion

Genesis Ventures presents a unique and interesting opportunity. Its emphasis on early stage, seed-focused investments in information technology companies, with a strong Internet component, is directly in line with Innovacom's approach in the US. Genesis' intent to lead rounds is also highly complementary to Innovacom's US approach.

An additional benefit is that Innovacom will have a way of capitalizing on investment opportunities which don't immediately resonate well with operational units of France Telecom. We have seen a number of examples of start-ups we could have invested in but for which we received pushback from client entities in France, only to have those same entities express interest in the start-ups one to two years after the original opportunity. Genesis Ventures could capture those start-ups, and Innovacom would benefit through its LP status and the special carry. We would also be well positioned to participate in follow on rounds knowing that we still had a portion of the start-up via Genesis.

Innovacom will benefit from having an extremely close relationship; considerably closer than even the Sofinnova relationship, especially now that Sofinnova's US team is largely new. The sharing of co-branded office space in a central silicon valley location (most likely Redwood Shores) would have the side benefit of increasing Innovacom's visibility. Innovacom's US team has had several occasions to work with parts of the Genesis team, including on actual investments, and the fit is extremely good, in terms of vision, methodology, industry knowledge, and contact base for deal sourcing.

At this point, it is recommended that Innovacom invest at least \$3 million at the first closing under condition that the first closing is \$20 million and that no telco viewed as a direct competitor invests in Genesis Ventures. For the Innovacom board meeting of September 23, we'll decide whether to put in an additional \$2 million.